Supreme Court, U.S.
FILED

99 2035 JUN 20 2000

OFFICE OF THE CLERK

No. _____

In the Supreme Court of the United States

COOPER INDUSTRIES, INC., PETITIONER,

v.

LEATHERMAN TOOL GROUP, INC.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Whether the Ninth Circuit, aligning itself with the Second and Seventh Circuits, erred in using an "abuse of discretion" standard to review a trial court's ruling on a challenge to the constitutionality of a punitive damages award, as opposed to applying a *de novo* review standard, as the Third, Eighth, Tenth, and Eleventh Circuits have done?

2. Whether the punitive damage award imposed against Petitioner and affirmed by the Ninth Circuit, which is ninety times the Respondent's purely economic compensatory damages, violates Petitioner's due process rights under criteria articulated in *BMW of North America, Inc. v. Gore*?

PARTIES TO THE PROCEEDING

Cooper Industries, Inc. is the only petitioner in this proceeding. Petitioner certifies pursuant to Supreme Court Rule 29.6 that it has no parent corporation nor are there any publicly held companies owning 10% or more of its stock.

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PETITION FOR A WRIT OF CERTIORARI

Petitioner Cooper Industries, Inc. respectfully petitions this Court for a writ of certiorari to review a decision of the United States Court of Appeals for the Ninth Circuit.

OPINIONS BELOW

The Ninth Circuit simultaneously issued two opinions—one unpublished (App. 1a-5a) and one published (App. 6a-17a)—in resolving the case below. The published opinion is reported at 199 F.3d 1009. The district court's judgment (App. 19a-26a) and post-verdict Order denying Petitioner's motion for judgment as a matter of law (App. 27a-31a) are unreported.

STATEMENT OF JURISDICTION

The Ninth Circuit issued its decisions on December 17, 1999. The court denied Petitioner's timely petition for rehearing/rehearing en banc on March 3, 2000. (App. 18a). Petitioner sought and received from Justice O'Connor an extension of time, to and including June 22, 2000, in which to

file its petition for a writ of certiorari. This Court has jurisdiction pursuant to 28 U.S.C. § 1254(1).

CONSTITUTIONAL PROVISION AT ISSUE

The Due Process Clause of the Fifth Amendment provides, in relevant part: "No person shall be . . . deprived of . . . property, without due process of law." U.S. CONST. amend. V.

STATEMENT OF THE CASE

Petitioner Cooper Industries, Inc. ("Cooper") and Respondent Leatherman Tool Group, Inc. ("Leatherman") are both hand tool manufacturers. In the early 1980s, Leatherman developed and began to market a multi-function hand tool, which it named the Pocket Survival Tool ("PST"). Although Leatherman has sold millions of these devices over the last two decades, it has never received a patent for the tool.

In 1995, Cooper sought to develop a similar product in an attempt to compete with the PST in the hand tool market. (ER 1081-83; Tr. 865-68).[1] In this endeavor, Cooper, as it is legally entitled to do, (App. 16a), largely copied the basic functional design of the PST, albeit with several modifications, including the additions of a serrated knife, a locking mechanism, and removable fasteners. (ER 326-28).

Early in the development stage, Cooper constructed a mock-up of its new tool, which it ultimately named a "Toolzall," for initial layouts in advertisements. (Tr. 947-48). At the time—approximately June or July, 1996—the first of Cooper's new tools had not rolled off the production line. (ER 688; Tr. 948.) Peter Jones, Cooper's brand manager on the Toolzall project, thus instructed employees at the company's plant to put together a prototype for advertising purposes. (ER 688).

[1] "Tr." refers to the trial transcript. "ER" refers to the Excerpt of Record in the Ninth Circuit.

Unbeknownst to Jones, an engineer at Cooper's plant assembled the Toolzall prototype by modifying the substantially similar looking Leatherman PST. (ER 688-89; Tr. 949-52). In particular, Cooper's unique fasteners were placed on a PST and all designating Leatherman marks were removed. (ER 337, 705). Testimony revealed, and the Ninth Circuit acknowledged, that the visual distinctions between the photographed Toolzall mock-up and the genuine Toolzall tool are virtually imperceptible.[2] (App. 3a; Aplt's Op. Br. at 7).

Cooper formally introduced its Toolzall product at the National Hardware Show in August, 1996. (Tr. 886). At this event, Cooper used photographs of the modified PST in its advertisements, press kits, packaging, and other disseminated materials. (ER 623-26). Cooper also employed the same mock-up photos in promotional materials sent to various magazines and mail-order catalogs. (ER 626).

While attending the 1996 hardware show, Leatherman co-founder and president Tim Leatherman carefully examined the Toolzall mock-up photographs posted in the Cooper booth and discerned a similarity between the Cooper tool and the Leatherman PST. (Tr. 99-100). After the show, he noticed the same modified PST photographs in magazine and catalog advertisements as well as on the Toolzall package itself. (Tr. 104).

In September, 1996, Leatherman filed the instant action against Cooper in the United States District Court for the District of Oregon. The complaint included a Lanham Act

[2] One discernable distinction was the difference in the primary knife texture. Specifically, the genuine Toolzall has a serrated blade while the mock-up (like the PST) contains no such feature. (Tr. 951). At the time the mock-up was created, however, Cooper had not yet decided to utilize a serrated blade on its tool. (Tr. 951-52).

trade dress infringement claim and common law causes of action for unfair competition, false advertising, and "passing off." In addition to damages, Leatherman sought an injunction against the manufacture and sale of the Toolzall, and against any further use of the modified PST in Toolzall advertising. (App. 32a).

Cooper immediately conceded that its advertisements using a modified PST were technically improper. In fact, Cooper voluntarily withdrew its Toolzall from the domestic market in the middle of October, 1996, (Tr. 733), and sent a written notice to its sales personnel on November 20 ordering the recall of all Toolzall promotional materials bearing photographs of the modified PST. (ER 1070). Cooper then agreed to enter into a "Stipulated Order for Preliminary Injunction with Respect to [its] Advertising," which the court promptly signed on December 20, 1996. (ER 25-26). The Order enjoined Cooper from using any photograph of a Leatherman tool, modified or otherwise, in Toolzall advertising or packaging. (*Id.*).

Contemporaneous with the issuance of the advertising injunction, the court, concluding Leatherman had demonstrated a likelihood of success on its trade dress infringement claim, entered a separate preliminary injunction enjoining Cooper from conducting any additional sales of its Toolzall product in the United States pending the outcome of the litigation. (App. 44a). The combined effect of the October, 1996 voluntary withdrawal and December, 1996 preliminary injunction was that Cooper did not sell a single original Toolzall in the United States after October, 1996.[3] (Tr. 1061-62; Ex. 615).

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[3] Cooper introduced a new Toolzall in 1997 that was highly dissimilar to the PST. No advertisements using a modified PST appeared for the new Toolzall. (Tr. 1061-62). Although Leatherman amended its complaint to allege that the new Toolzall also infringed on its trademark rights, that claim was flatly rejected by the jury. (ER 750). There has

(footnote continued on next page)

In 1997, despite both the advertising injunction and written directive to its sales personnel, Cooper discovered that photographs of the modified PST were appearing periodically in Toolzall ads in various catalogs and magazines. (Tr. 367-69). Notably, the injunction had not required a recall of marketing literature that had previously been distributed to *resellers*.[4] Upon being alerted of this continuing situation by Leatherman's counsel, Cooper sent a letter on April 24, 1997, to all of its domestic resellers/distributors, ordering that any outstanding promotional materials depicting a modified PST be returned to the company immediately. (Tr. 906-08). In practical terms, none of the recalled advertisements resulted in any revenue to Cooper inasmuch as the company was under an injunction barring it from selling the Toolzall. (Tr. 898).

Leatherman's lawsuit proceeded to trial in October, 1997. Leatherman's experts testified that the damages flowing from Cooper's allegedly unlawful activities were roughly equivalent to Cooper's profits on the original Toolzall. (Tr. 701-02; Instruction 36). According to Cooper expert witness Creighton Hoffman, whose testimony the jury apparently accepted, Cooper's gross profits from nationwide Toolzall sales approximated $50,000. (Ex. 678). No attempt was made by Leatherman or its experts to segregate damages on the trade dress infringement claim from damages on the common law false advertising/"passing off" causes of action.

On October 17, the jury returned a verdict concluding that Cooper's original Toolzall (although not its new Toolzall) had infringed on Leatherman's trademark rights in the PST, but that Leatherman had suffered no damages from the infringement. (ER 749-51). The jury further determined

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never been any suggestion that consumers viewing the new Toolzall would have confused the device for a PST.

[4] Cooper sells its products through resale distribution channels, rather than by direct sales to end-user consumers. (Tr. 936-37).

that Cooper had engaged in common law unfair competition, "passing off," and false advertising, causing Leatherman $50,000 in damages. (ER 751). The jury also imposed $4.5 million in punitive damages against Cooper on the common law claims. (ER 751-52).[5]

Cooper filed a timely post-trial motion seeking a reduction of the punitive damage award as a matter of law. Cooper argued, *inter alia*, that because the visual distinctions between the genuine Toolzall and the modified PST appearing in the Cooper advertisements were virtually indiscernible, there was no possibility the ads had any effect on Leatherman's reputation. Cooper further emphasized that, since it had made no Toolzall sales after October, 1996, its controverted ads could not have had more than the most minimal impact on Leatherman's sales. Finally, Cooper maintained that a punitive damage award which was ninety times the amount of the purely economic compensatory damages purportedly suffered by Leatherman violated Cooper's due process rights, as set forth in *BMW of North America, Inc. v. Gore*, 517 U.S. 559 (1996).

In its abbreviated entry of judgment issued November 17, the district court denied Cooper's motion to reduce the punitive damage award. (App. 24a). It dealt perfunctorily with the *Gore* issue by offering no more than the following conclusory statement: "I find that the award is fairly proportional given both the nature of the conduct, evidence of intentional use of the modified [PST] and the size of an award necessary to deter future similar conduct given defendant's size and assets." (App. 24a). In a subsequent order denying Cooper's formal motion for judgment as a matter of law, the court also refused to reduce the punitive damages pursuant to Oregon law. (App. 29a-31a).

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[5] The district court later issued a permanent injunction enjoining Cooper from selling its original Toolzall within the United States.

Cooper then appealed. The Ninth Circuit, in a published opinion, reversed the district court verdict on the trade dress infringement claims and vacated the injunction. (App. 6a-17a). It held that the design of the unpatented PST was entirely functional and, therefore, was not protectable trade dress. (App. 10a) ("[T]he physical details and design of a product may be protected under the trademark laws only if they are nonfunctional.").

At the same time, in a separate unpublished opinion, the Ninth Circuit affirmed the jury's verdict on liability and damages as to the common law claims. (App. 1a-5a). While acknowledging that Cooper's false advertising/"passing off" was highly "unusual" in that no consumers could have been deceived by its conduct, (App. 3a), the court held Cooper's conduct amounted to "literal passing off" and may have given Cooper an unfair advantage by allowing it to obtain a mock-up photograph of its Toolzall more quickly than if it had started from scratch or waited until the genuine Toolzall had come off the production line. (App. 3a-4a). Moreover, despite the district court's characterization of Cooper's post-injunction Toolzall advertisements as "inadvertent," (App. 31a), the Ninth Circuit added that Cooper's failure to remedy the problem after an injunction had issued suggested "an indifference to legal consequences." (App. 4a). With respect to the punitive damages due process issue, the Ninth Circuit applied a deferential standard of review and held the district court did not abuse its discretion in refusing to reduce the punitive damages. (App. 3a-4a).

REASONS FOR GRANTING THE WRIT

This case presents the Court with an ideal opportunity to resolve the split among appellate courts at both the federal and state levels over the proper standard of review applicable to claims of unconstitutionally excessive punitive damage awards.[6] While the Court has entertained several Due Process Clause challenges to the excessiveness of particular awards, it has never addressed the correct standard of review on this issue.

Supreme Court guidance is crucial here inasmuch as the varying standards have incubated an environment in which there is neither rationality nor predictability to the amounts of such awards. This conflict has reinforced the arbitrariness of punitive damage awards and, in jurisdictions employing a highly deferential standard, as is the case here, effectively deprived defendants of meaningful appellate review, which this Court has identified as the primary check on runaway juries. *See Honda Motor Co. v. Oberg*, 512 U.S. 415, 432 (1994) (punitive damages pose acute risk of arbitrary deprivation of property, and meaningful judicial review acts as a safeguard against that danger). Moreover, the deferential standard of review has enabled, if not encouraged, lower courts to maintain only the most illusory sensitivity to the Supreme Court's due process jurisprudence.

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[6] The Supreme Court has held that federal courts measuring the excessiveness of *non-punitive damage* awards *under state law* must invoke an abuse of discretion standard of review. *See Gasperini v. Center for Humanities, Inc.*, 518 U.S. 415, 422, 435 (1996). That decision has no bearing here. The question presented in the instant dispute is the proper standard of review for measuring the excessiveness of punitive damages under the federal Constitution. In fact, the Court has expressly left open the issue currently confounding federal appeals courts across the country. *See Honda Motor Co. v. Oberg*, 512 U.S. 415, 432 n.10 (1994).

I. Courts are Divided over Proper Standard of Review in Evaluating Due Process Challenges to Punitive Damages Awards

A. Appellate Split Between *De Novo* and Deferential Standards of Review

At least four federal circuit courts of appeal apply a *de novo* standard of review in examining constitutional attacks on the excessiveness of punitive damage awards. *See United Phosphorus, Ltd. v. Midland Fumigant, Inc.*, 205 F.3d 1219, 1229 (10th Cir. 2000); *Inter Med. Supplies, Ltd. v. EBI Med. Sys., Inc.*, 181 F.3d 446, 467-70 (3d Cir. 1999), *cert. denied*, 120 S. Ct. 791 (2000); *United States v. Big D Enters., Inc.*, 184 F.3d 924, 932-33 (8th Cir. 1999), *cert. denied*, 120 S. Ct. 1419 (2000); *Johansen v. Combustion Eng'g, Inc.*, 170 F.3d 1320, 1334 (11th Cir.), *cert. denied*, 120 S. Ct. 329 (1999).[7] These courts predicate their *de novo* review on the fact that not only is the excessiveness a legal issue in this context, but "there is a constitutional limit on a punitive damage award beyond which neither the jury nor the court has any discretion to venture." *Johansen*, 170 F.3d at 1334. In other words, deference to a lower court has no place where constitutional standards are being applied.

There are, nonetheless, at least three other federal appellate courts, including the Ninth Circuit, which adhere to a highly deferential "abuse of discretion" standard in assessing punitive damage awards for constitutional excessiveness. *See Pavon v. Swift Transp. Co.*, 192 F.3d 902, 909 (9th Cir.

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[7] In the Eleventh Circuit, although the ultimate constitutional inquiry is conducted *de novo*, the district court's underlying factual findings are reviewed for clear error. *Johansen*, 170 F.3d at 1334.

1999);[8] *Shea v. Galaxie Lumber & Constr. Co.*, 152 F.3d 729, 736 (7th Cir. 1998); *Lee v. Edwards*, 101 F.3d 805, 808 (2d Cir. 1996). Under this test, the appellate court's role is simply to determine if the district court has abused its discretion in ruling that a particular award does not "shock the judicial conscience." *Lee*, 101 F.3d at 808.

Nor is there unanimity among state appellate courts in crafting an appropriate standard of review on the due process issue. Oregon, for example, has construed *Gore* to require an independent appellate assessment of the jury's punitive damage award for possible unconstitutional excessiveness, without regard to the trial court's reasoning. *MacCrone v. Edwards Ctr., Inc.*, 980 P.2d 1156, 1165 (Or. Ct. App. 1999) (en banc). Arkansas similarly appears to follow a *de novo* review approach. *Routh Wreckage Serv., Inc. v. Washington*, 980 S.W.2d 240, 244-45 (Ark. 1998). Other states, however, examine trial court rulings on this issue under highly deferential standards. *See, e.g., Condon Auto Sales & Serv., Inc. v. Crick*, 604 N.W.2d 587, 595 (Iowa 1999) (abuse of discretion); *Owens-Corning Fiberglass Corp. v. Golightly*, 976 S.W.2d 409, 413-15 (Ky. 1998) (clear error).[9]

In the case at bar, rejecting Petitioner's proposed standard, the Ninth Circuit opted to review the district court's

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[8] An earlier Ninth Circuit opinion suggested a *de novo* standard is applicable to the review of purported Due Process Clause violations. *See Hilao v. Estate of Marcos*, 103 F.3d 767, 780 (9th Cir. 1996). This decision apparently is not followed in the circuit.

[9] The Supreme Court recently denied a certiorari petition purportedly presenting a similar issue regarding the correct standard of review in evaluating claims of constitutionally excessive punitive damage awards. *Paracelsus Healthcare Corp. v. Willard*, 754 So. 2d 437 (Miss. 1999), *cert. denied*, 68 U.S.L.W. 3748 (U.S. June 5, 2000). Although the petitioner there argued that the Mississippi Supreme Court employed a very deferential review standard, the text of the opinion suggests the court, in fact, undertook a relatively independent analysis of the *Gore* guideposts. *Id.* at 444-45.

due process ruling only for an abuse of discretion. (App. 4a) ("[T]he district court did not abuse its discretion in declining to reduce the amount of the punitive damages"). Contrary to the careful and reasoned discussion in its contemporaneous opinion on trade dress infringement issues, the court's due process "analysis" cited no cases and failed to take even the most cursory examination of the constitutional excessiveness of the punitive damage award. Instead, the court merely observed tersely that the record supported the district court's one-sentence "findings." (App. 3a) ("The district court specifically found that the punitive damage award was proportional and fair, given the nature of the conduct, the evidence of intentional passing off, and the size of an award necessary to create deterrence to an entity of Cooper's size and assets. Those findings were supported by the evidence, such that the award did not violate Cooper's due process rights.").

B. *De Novo* Review is Necessary to Ensure Effective and Consistent Enforcement of Constitutional Rights

The irreconcilable division among courts of appeal (particularly the federal circuits) over the proper standard of review threatens to undermine the rigorous enforcement of due process constraints imposed by this Court on punitive damage awards. The extent to which such awards are subject to limitation is a matter of law rooted in the federal Constitution. *TXO Prod. Corp. v. Alliance Resources Corp.*, 509 U.S. 443, 453-54 (1993) (plurality). While the Constitution may not mandate uniformity, *Pacific Mut. Life Ins. Co. v. Haslip*, 499 U.S. 1, 41 (1991) (Kennedy, J., concurring in the judgment), it also does not permit the contours of the Due Process Clause to be left to the almost open-ended exercise of discre-

tion of individual juries and trial court judges.[10] Yet an abuse of discretion review does just that.

Only a *de novo* standard of appellate review provides the essential due process check against the imposition of punitive damage awards that result from bias or passion. Without such exacting and independent review, defendants (admittedly culpable ones in particular) will be far more susceptible to arbitrary awards that have little nexus to the severity of their transgression.[11] *See Haslip*, 499 U.S. at 22 (appellate review must be sufficient to "ensure[] that punitive damages awards are not grossly out of proportion to the severity of the offense"); *Bankers Life & Cas. Co. v. Crenshaw*, 486 U.S. 71, 87-88 (1988) (O'Connor, J., concurring) (substantial and unpredictable impact of windfall recoveries from punitive damages necessitates careful scrutiny of such awards).

Nor is the distinction between a *de novo* and abuse of discretion review standard simply a matter of semantics. Defining the constitutional boundaries of punitive damages often will entail the consideration of weighty legal principles, the balancing of competing legal interests, and the evaluation of important equitable concerns. Calibrating these quintessential issues of law to the unique facts surrounding a particular dispute requires a considered assessment of the record on appeal that only comes with *de novo* review.

[10] Whatever differences may exist among the members of this Court as to the constraints that the Constitution places on punitive damage awards, there appears to be general agreement that the lower courts—including the federal circuits—must at a minimum afford defendants the full measure of procedural due process protection against punitive awards that are wholly devoid of rationality. *See Gore*, 517 U.S. at 587-88 (Breyer, J., joined by O'Connor and Souter, JJ., concurring); *Oberg*, 512 U.S. at 432 (Stevens, J., joined by Blackmun, O'Connor, Scalia, Kennedy, Souter, and Thomas, JJ.); *Alliance Resources*, 509 U.S. at 471 (Scalia, J., joined by Thomas, J., concurring in judgment).

[11] The adequacy of appellate review is also the primary basis upon which the Court has rested its conclusion that the Due Process Clause does not necessitate a high proof threshold for punitive damage awards. *See Haslip*, 499 U.S. at 23 n.11.

Deferential review under an abuse of discretion standard, on the other hand, fails to satisfy the exacting scrutiny that the Constitution demands. Petitioner, in fact, is aware of no other instance in which a claimed due process violation is reviewed on appeal under an abuse of discretion standard. Indeed, "fair notice" of the potential sanctions that may be imposed on a defendant's tortious conduct—the hallmark of the due process inquiry *vis a vis* excessive punitive damages, *Gore*, 517 U.S. at 574—is possible only if it can be said with assurance that the process accorded the defendant both at trial and on appeal protects against irrational and unpredictably excessive punitive awards.

II. Properly Applied *De Novo* Review Standard Would Have Underscored that Punitive Damages Imposed Here Contravene Petitioner's Due Process Rights

Appellate review of the jury's $4.5 million punitive damage assessment in this case under an independent, *de novo* standard would have demonstrated that the award fails in all respects to meet the minimal criteria for rationality articulated in *Gore*. Not only is this figure *ninety* times the purely economic harm to which plaintiff was exposed, but it arose in a case in which much of Cooper's conduct was deemed "inadvertent" and only technically tortious in nature. (App. 3a-4a, 31a). In addition, the jury's punitive award, and the district court's summary approval thereof, were no doubt colored in large part by a belief that Cooper's underlying act of copying the PST was unlawful. Although the Ninth Circuit explicitly repudiated that belief in its vacatur of the trade dress infringement verdict, no adjustment was made for the error in its due process conclusion. In short, the abuse of discretion prism through which the Ninth Circuit conducted its punitive damages review allowed it to pay only lip-service to

the *Gore* guideposts, and, precisely because the appellate process failed to undertake a proper inquiry, enabled the award to escape the constitution's due process safeguards.

A. Faithful Application of *Gore* Guideposts Compels Reduction of Punitive Damage Award

This Court held in *Gore* that punitive damages which are "grossly excessive" in relation to a "State's legitimate interests in punishment and deterrence" enter a "zone of arbitrariness" that violates the Due Process Clause. 517 U.S. 568. The Court added that "[e]lementary notions of fairness enshrined in our constitutional jurisprudence dictate that a person receive fair notice not only of the conduct that will subject him to punishment, but also of the severity of the penalty that a State may impose." *Id.* at 574.

To effectuate these general principles, the Court identified three "guideposts" to steer the due process analysis: (1) the "degree of reprehensibility" of the defendant's conduct; (2) the ratio between the punitive damage award and "the actual harm inflicted on the plaintiff;" and (3) the relationship between the punitive damage award and "the civil or criminal penalties that could be imposed for comparable misconduct." *Id.* at 575, 580, 583. While reaffirming its prior reluctance to demarcate any bright lines in establishing limits on constitutionally permissible punitive damage awards, *id.* at 585-86, the Court emphasized the need for legal standards that permit meaningful appellate review of the reasonableness and rationality of such awards. *Id.* at 587 (Breyer, J., concurring). *De novo* review by the court of appeals alone accomplishes that result. *See supra* at 11-13.

1. Reprehensibility of Defendant's Conduct

The most important component in the constitutional excessiveness inquiry is the flagrancy of the defendant's misconduct. *Id.* at 575 & n.23. Certain transgressions are more harmful than others and the presence of deceit and repeated wrongdoing is naturally deemed more reprehensible than mere negligence and isolated malfeasance. *Id.* at 575-76; *Alliance Resources*, 509 U.S. at 462 n.28. The ultimate touchstone is whether the punitive damages imposed upon the defendant "reflect 'the enormity of his offense.'" *Gore*, 517 U.S. at 575 (quoting *Day v. Woodworth*, 54 U.S. 363, 371 (1852)).

Cooper's conduct in the instant action bore none of "the aggravating factors associated with particularly reprehensible conduct." *Id.* at 576. First, as was the case in *Gore*, the harm inflicted on Leatherman was entirely economic in nature. *Id.* Leatherman's only damages were the PST sales it purportedly lost to consumers purchasing Cooper's Toolzall. More specifically, by marketing its Toolzall with promotional materials depicting a modified PST, Cooper was able to compete more rapidly with Leatherman than if it had delayed preparing its advertisements until the first Toolzalls rolled off the production line. These damages, calculated in the form of Cooper's gross profits on the Toolzall, amounted to approximately $50,000. (ER 751; Instruction 36).

Although Leatherman argued it sustained certain non-economic damages as well, the Ninth Circuit found this claim did not ring true. In particular, the court determined that there was no legal relationship between Cooper's advertisements and any alleged impairment of Leatherman's reputation. The court stated:

> [T]his is a very unusual passing off case. Typically, one who engages in passing off is attempting to persuade the customer that an unknown or inferior product being sold actually *is* a famous or superior

product of another. It would also be passing off in a traditional sense if Cooper showed customers *physical* samples of PSTs and then shipped Toolzalls to customers after they placed orders based on examining the PST samples. In that case, Cooper would be using the actual qualities of the PST to obtain the sales of Toolzalls.

Here, even assuming PST is a superior product, there is nothing to suggest that any superior qualities were *perceivable* in the photographs. Any customer who bought based on what the photograph *showed* would have received essentially that for which he or she paid. Thus, Cooper's use of the photographs of the PST does not involve the same sort of potential harm to Leatherman or to customers as that which may arise from traditional passing off.

(App. 3a-4a) (emphasis in original).

It is equally critical that, as the Ninth Circuit held in vacating the jury's trade dress infringement verdict, Cooper acted well within its legal rights in copying Leatherman's unpatented, wholly functional PST. (App. 16a). Any suggestion, therefore, that Toolzall sales diminished consumer confidence in either the PST or the Leatherman brand name is completely irrelevant for purposes of the damages calculus on the false advertising/"passing off" claims. The only relevant damages on these common law causes of action are those emanating from misrepresentations in the photos. It is essentially undisputed that such damages were *de minimis* inasmuch as the relatively small number of individuals who purchased a Toolzall before Cooper voluntarily took the device off the market received a tool with no material differences from the product pictured in the controverted ads.

As for Cooper's other purportedly reprehensible act—failing to ensure that no modified PST photo appeared in any Toolzall promotional materials following the December, 1996 preliminary injunction—the district court itself characterized Cooper's omission as "inadvertent." (App. 31a). Not

only did the injunction not require a recall of any advertisements that already had been distributed, but the undisputed visual similarities between the Toolzall and PST rendered the products difficult to distinguish. Moreover, as soon as Cooper learned from Leatherman that its resellers/distributors were continuing to use promotional materials subject to the preliminary injunction, Cooper promptly directed them to cease such practices. (Tr. 906-08).

The jury's determination that Cooper acted with malice, of course, must be respected. But in assessing the magnitude of the admitted wrongdoing, the fact that Cooper had removed the Toolzall from the market at the time of its post-injunction advertising, combined with the fact that the brief use of the post-injunction ads by Cooper's resellers/distributors posed no harm to Leatherman (economic or otherwise), greatly minimizes the reprehensibility of the misconduct. *See Gore*, 517 U.S. at 580 ("That conduct is sufficiently reprehensible to give rise to tort liability, and even a modest award of exemplary damages does not establish the high degree of culpability that warrants a substantial punitive damages award.").

The Ninth Circuit disturbingly declined to consider any of these points. Instead, it perfunctorily affirmed the district court's one-sentence disposal of the constitutional excessiveness issue, (App. 24a), by glibly characterizing the matter as one falling within the district court's discretion. (App. 3a, 4a). Not only was the ultimate result inequitable towards Cooper, but the deferential review solidified the arbitrariness and unpredictability of punitive damage awards.

2. Ratio of Punitive Damages to Compensatory Damages

Exacerbating the deficiency of the Ninth Circuit's review was its refusal to examine the second important indicator of punitive damages' constitutional legitimacy, namely the ratio of the award to the actual harm sustained by the

plaintiff. *Gore*, 517 U.S. at 580. While this Court has steadfastly, and perhaps sensibly, refused to impose any rigid mathematical formula for evaluating reasonableness, it has referenced some inchoate outer thresholds. The Court pointed out in *Haslip*, for example, that a punitive damage award of more than four times the plaintiff's out-of-pocket expenses was "close to the line." 499 U.S. at 23. The Court later clarified that a ten-to-one ratio was permissible where both the potential, as well as actual, harm from the defendant's conduct was taken into account. *See Alliance Resources*, 509 U.S. at 462. But the Court invalidated, as "breathtaking," the punitive damages award in *Gore* that was five hundred times the amount of the plaintiff's actual damages. 517 U.S. at 582-83.

To be sure, the Court has suggested that higher ratios may be warranted if, unlike here, a particularly egregious act results in only a small amount of compensatory damages, or if, again unlike here, a plaintiff's injury and resulting noneconomic harm are difficult to detect. *Id.* at 582. This dicta, however, cannot serve as a repository for virtually unfettered discretion in crafting an appropriate punitive damage award. There must be reasonable and predictable restrictions on such awards if defendants are to enjoy the type of notice of potential punishment that the Due Process Clause affords them. To hold otherwise merely heightens the constitutional mischief already inherent in exemplary damages.

There is no precedent in this Court to support the 90:1 punitive to compensatory damages ratio imposed in the case at bar. Not only did Cooper readily admit to the impropriety of its actions and take prompt remedial action by voluntarily removing its Toolzall from the marketplace, but Leatherman suffered only minimal harm from Cooper's conduct. Nor was there any potential that Leatherman might have suffered additional harm under different circumstances. In short, to characterize Leatherman's purely economic $50,000 injury as "reasonably related" to the punitive award of $4.5 million, "is to empty the 'reasonable relationship' test of meaningful content." *Gore*, 517 U.S. at 590 (Breyer, J., concurring).

3. Comparable Civil Penalties

The third and final ingredient in the constitutional excessiveness inquiry, which the Ninth Circuit also avoided discussing, is the comparable civil or criminal sanctions that could be imposed for similar misconduct. *Id.* at 583. The only provision even remotely relevant here is Or. Rev. Stat. § 646.642(1) (1999), which authorizes the state to seek civil penalties of $25,000 from any party who "willfully" violates the terms of an injunction entered pursuant to Oregon's Unlawful Trade Practices statute. Even if the State of Oregon had secured the injunction at issue here, section 646.642(1) would have no applicability because, as the district court observed, Cooper's post-injunction improper advertisements were "inadvertent." (App. 31a). The jury's finding of maliciousness on the part of Cooper was predicated on conduct pre-dating the imposition of the preliminary injunction. Put simply, there was no "willful" violation of an injunction.

In sum, the proper application of the *Gore* guideposts inescapably compels a substantial reduction in the approved punitive damage award. In direct contravention of the oft-repeated edict set down by this Court, *see Gore*, 517 U.S. at 574 & n.22; *Haslip*, 499 U.S. at 22; *Browning-Ferris Indus. of Vt., Inc. v. Kelco Disposal, Inc.*, 492 U.S. 257, 280-81 (1989) (Brennan, J., concurring), the exemplary damages imposed are wholly disproportionate to the character and degree of Cooper's openly-admitted transgressions. Cooper had no advance notice that it was susceptible to such an award, and its due process rights were accordingly violated. Such an award never would have survived an independent and meaningful appellate review for reasonableness.

B. Deferential Appellate Review Invites Nullification of Due Process Safeguards

This case represents far more than just another Ninth Circuit panel cast adrift. It is a testament to the grave dan-

gers that lurk—most specifically, arbitrary and unduly excessive punitive damage awards—if constitutional rights are not carefully scrutinized in the form of *de novo* appellate review. As is painfully evident here, an extraordinarily deferential review standard invites judicial nullification of the guideposts established in this Court's due process jurisprudence. If the Due Process Clause's protection against grossly excessive punitive damages is to be anything more than mere empty words, individual juries and trial judges must not be delegated virtually unbridled power to define the scope of this most fundamental right.

The risks are magnified further when one considers the gaping judicial cleavages between excessive and reasonable punitive damage awards. The often erratic fluctuations emanate from shared moral judgments that are excruciatingly difficult to translate into dollar figures. *See* Cass R. Sunstein et al., *Assessing Punitive Damages (with Notes on Cognition and Valuation in Law)*, 107 Yale L.J. 2071, 2074 (1998). The inevitable result is that punitive awards, while cloaked as the byproduct of reasoned analysis, frequently amount to little more than the collective caprice of outraged jurors and trial judges. No one suggests, of course, that appellate judges are somehow able to consult their oracle of knowledge and isolate the exact figure necessary to punish and deter a defendant's misconduct. But their dispassionate application of the constitutional standards governing punitive damages, accentuated by an acute awareness of similarly situated appellate courts' treatment of the issue, nurtures an environment of predictability and reasonableness. And as Justice Breyer has noted, it is "the uniform general treatment of similarly situated persons that is the essence of the law itself." *Gore*, 517 U.S. at 587 (Breyer, J., concurring).

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

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JUNE 2000

APPENDIX

LEATHERMAN TOOL GROUP, INC., an Oregon corporation, Plaintiff-Appellee,

v.

COOPER INDUSTRIES, INC., an Ohio corporation, Defendant-Appellant

Nos. 98-35147, 98-35415

United States Court of Appeals for the Ninth Circuit

Argued and Submitted May 4, 1999 -- Portland, Oregon

Filed December 17, 1999

Appeals from the United States District Court for the District of Oregon (Malcolm F. Marsh, District Judge, Presiding)

MEMORANDUM[1]

Before: WILLIAM C. CANBY, JR. and THOMAS G. NELSON, Circuit Judges, and JEREMY FOGEL,[2] District Judge.

FOGEL, District Judge:

In a published opinion filed herewith, we have reversed that portion of the judgment below that granted plaintiff Leatherman Tool Group, Inc. an injunction against de-

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[1] This disposition is not appropriate for publication and may not be cited to or by the courts of this circuit except as may be provided by Ninth Circuit Rule 36-3.

[2] The Honorable Jeremy Fogel, United States District Judge for the Northern District of California, sitting by designation.

fendant Cooper Industries, Inc. In this memorandum we will address Cooper's remaining contentions on appeal. We will affirm the punitive damage award and remand for further consideration of the attorneys' fees' award.

I.

A. Punitive Damages

The parties are familiar with the facts so we will not recite them here. Cooper challenges the punitive damages awarded against it as unauthorized under the Oregon Constitution and as violative of due process. We take each argument in turn.

1. The Oregon Constitution

The district court's interpretation of state law is reviewed de novo. *See Omega Envtl, Inc. v. Gilbarco, Inc.*, 127 F. 3d 1157, 1161 (9th Cir. 1997). Article I, Section 8, of the Oregon Constitution provides, "No law shall be passed restraining the free expression of opinion, or restricting the right to speak, write, or print freely on any subject whatsoever, but every person shall be responsible for the abuse of that right." Oregon courts have held that this provision precludes punitive damages (but permits compensatory damages) for torts which impose liability for speech. *See Huffman & Wright Logging Co. v. Wade*, 857 P.2d 101 (1993).

In *Smallwood v. Fisk*, 934 P.2d 557 (1997), however, the court made clear that the prohibition on punitive damages does not apply where the speech in issue "is wholly confined within some historical exception that was well established when the first American guarantees of freedom of expression were adopted and the guarantees then or in 1859 demonstrably were not intended to reach." *Id.* at 559 (citation omitted).

Smallwood proceeded to hold that fraud falls within such a historical exception. *See id.* at 560-61. Here, Cooper was found liable for misrepresenting that a modified PST was made by Cooper. Although the precise theory of liability differed slightly from the ordinary fraud at issue in *Smallwood*, no meaningful distinction can be drawn. Accordingly, punitive damages were not forbidden by the Oregon Constitution in this action.

2. Due Process

The district court specifically found that the punitive damage award was proportional and fair, given the nature of the conduct, the evidence of intentional passing off, and the size of an award necessary to create deterrence to an entity of Cooper's size and assets. Those findings were supported by the evidence, such that the award did not violate Cooper's due process rights.

We note that even though the jury's finding that Cooper engaged in passing off is supported by substantial evidence and is not challenged on appeal, this is a very unusual passing off case. Typically, one who engages in passing off is attempting to persuade the customer that an unknown or inferior product being sold actually *is* a famous or superior product of another. It would also be passing off in a traditional sense if Cooper showed customers *physical* samples of PSTs and then shipped Toolzalls to customers after they placed orders based on examining the PST samples. In that case, Cooper would be using the actual qualities of the PST to obtain the sales of Toolzalls.

Here, even assuming PST is a superior product, there is nothing to suggest that any superior qualities were *perceivable* in the photographs. Any customer who bought based on what the photograph *showed* would have received essentially that for which he or she paid. Thus, Cooper's use of the

photographs of the PST does not involve the same sort of potential harm to Leatherman or to customers as that which may arise from traditional passing off.

We do not, however, intend to condone the conduct. It was literal passing off and at a minimum, it gave Cooper an unfair advantage by allowing it to use the sweat of Leatherman's efforts to obtain a "mock-up" more cheaply, easily, and quickly than if it had started from scratch or waited until samples of its own product were ready. Additionally, there was evidence that Cooper did not act promptly to remedy the problem even after an injunction issued, which suggests an indifference to legal consequences. Accordingly, the district court did not abuse its discretion in declining to reduce the amount of punitive damages.[3]

B. Attorneys' Fees

Section 35 (a) of the Lanham Act permits attorneys' fee awards in "exceptional cases." 15 U.S.C. § 1117 (a). An award of attorneys' fees under the Lanham Act is reviewed for abuse of discretion. *See Stephen W. Boney, Inc. v. Boney Services, Inc.*, 127 F. 3d 821, 827 (9th Cir. 1997). The district court cited *Boney* for the proposition that "exceptional" includes cases where the "infringement is malicious, fraudulent, deliberate, or willful." The district court proceeded to find that Cooper's conduct met that standard, and that Cooper's "strong functionality argument" was insufficient to prevent the fee award, because Cooper "took a calculated risk in pursuing the Toolzall design."

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[3] Cooper also argues the punitive award violates Oregon law which requires a finding of malice to support punitive damages. On the agreed-to verdict form, the jury found malice or reckless and outrageous indifference. That finding is supported by the evidence in connection with the passing off.

Because we have concluded Leatherman had no protectable trade dress in the PST, conduct related to copying it no longer can serve as a basis for the award of attorneys' fees. We therefore remand to give the district court the opportunity to consider whether the evidence as to the passing off claim, standing alone, is sufficient to warrant the award or some lesser award.[4]

II.

The portion of the judgment awarding punitive damages is AFFIRMED. The matter is REMANDED to the district court for reconsideration of the award of attorneys' fees.

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[4] We note that the jury verdict form did not ask the jury to distinguish between passing off as a Lanham Act violation and passing off under state law. On remand, the district court should first determine whether there was any Lanham Act component of the jury verdict to support any fee award.

LEATHERMAN TOOL GROUP, INC., an Oregon corporation, Plaintiff-Appellee,

v.

COOPER INDUSTRIES, INC., an Ohio corporation, Defendant-Appellant

Nos. 98-35147, 98-35415

United States Court of Appeals for the Ninth Circuit

Argued and Submitted May 4, 1999 -- Portland, Oregon

Filed December 17, 1999

Appeals from the United States District Court for the District of Oregon (Malcolm F. Marsh, District Judge, Presiding)

John D. Vandenberg, David J. Earp and Garth A. Winn, Klarquist Sparkman Campbell Leigh & Whinston, Portland, Oregon, for the defendant-appellant.

J. Peter Staples, Julianne Ross Davis and Bruce W. DeKock, Chernoff, Vilhauer, McClung & Stenzel, Portland, Oregon, for the plaintiff-appellee.

Before: WILLIAM C. CANBY, JR. and THOMAS G. NELSON, Circuit Judges, and JEREMY FOGEL,[1] District Judge.

Opinion by Judge Fogel

[1] The Honorable Jeremy Fogel, United States District Judge for the Northern District of California, sitting by designation.

FOGEL, District Judge:

In this case we must decide when and to what extent the overall appearance of a non-patented product is protectable as "trade dress." Plaintiff Leatherman Tool Group, Inc. ("Leatherman") was first to market with an admittedly ingenious multi-function pocket tool which improves on the classic "Swiss army knife" in a number of respects. Not the least of the improvements was the inclusion of pliers, which, when unfolded, are nearly equivalent to regular full-sized pliers. Leatherman sells its tool under the name "Pocket Survival Tool" ("PST").[2] Leatherman apparently largely created and undisputedly now dominates the market for multifunction pocket tools which generally resemble the PST.

Defendant Cooper Industries, Inc. ("Cooper") owns numerous famous tool industry brand names including "Crescent"; it is best known for the Crescent adjustable wrench which was copied widely by other toolmakers in the early part of the 20th century. There is no dispute that at some point Cooper became aware of the PST and of Leatherman's market dominance and set out to compete in that market. There also is no dispute that at a trade show in 1996, Cooper announced a multi-purpose tool which differed in appearance from the PST in only three respects: 1) the Cooper tool was marked with a different name than the PST, 2) the fasteners which held the Cooper tool together differed from the PST fasteners, and 3) the Cooper tool included a serrated blade and certain other small but not particularly visible differences. During development, Cooper internally referred to its competing tool as the "Cooperman." When it was announced, Cooper called its tool the Crescent "Toolzall" (hereinafter "the original Toolzall" or "the Toolzall").

[2] Leatherman sells other models of multifunction tools which differ in size and functions. Those tools are not at issue in this litigation.

After the trade show, Leatherman filed this action and obtained a preliminary injunction prohibiting Cooper from marketing the original Toolzall. Cooper thereafter developed and marketed a version of the Toolzall ("the second Toolzall") which differed more from the PST. Cooper moved for judgment as a matter of law on Leatherman's trade dress claim, arguing that Leatherman did not provide the "entire design" of the PST was nonfunctional. The district court denied Cooper's motion.

This action then proceeded to trial by jury. The jury found that the overall appearance of the PST was protectable trade dress and that the original Toolzall infringed that trade dress. The jury found that the second Toolzall did not infringe the trade dress of the PST.

The jury awarded no damages as to the trade dress infringement. Pursuant to the finding of infringement, however, the district court entered a permanent injunction precluding Cooper from marketing the original Toolzall. Cooper therefore has appealed that portion of the judgment.

We conclude that the district court should have granted Cooper's motion for judgment as a matter of law on Leatherman's trade dress claim and therefore we reverse the judgment in part. In an unpublished memorandum filed herewith, we affirm the jury's award of damages on certain other claims and remand for further consideration the question of whether those other claims support an award of attorneys' fees absent trade dress infringement.

I.

"The standard of review for the denial of a motion for judgment as a matter of law after a jury trial is the same as the standard of review for reviewing a jury's verdict: 'both the verdict and the denial of the motion must be affirmed if

there is substantial evidence to support the verdict.'" *Gilbrook v. City of Westminster*, 177 F.3d 839, 856 (9th Cir. 1999) (quoting *Landes Constr. Co. v. Royal Bank of Canada*, 833 F.2d 1365, 1370-71 (9th Cir. 1987)).

II.

Leatherman claimed, and the jury found, a protectable trade dress in "the overall appearance" of the PST.[3] Leatherman asserts that the protectable appearance includes:

> [T]he combination of multiple features, including: the tool size; the shape of the handles; the shape of the gripping jaws including the selection, shape and placement of the gripping jaw features (needlenose, arcuate gripping surface and cutters); the mirror image of the tool handles; the brushed stainless steel finish on the handles; the selection, arrangement and shape of all of the various tool blades both individually and collectively; the combination and arrangement of all the above features; the proportional sizes of components in relation to each other; and, the

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[3] Cooper contends it was prejudiced when on the last day of the trial the district court changed the previously agreed-to phrase "entire design" to "overall appearance" in two jury instructions. Cooper appears to understand "entire design" to mean something different from the "overall appearance." Although "design" and "appearance" are not fully synonymous, we have trouble seeing a meaningful distinction in this context. Whether one says "entire design" or "overall appearance" the basic connotation is "what the product looks like, viewed as a whole."

It appears Cooper may be trying to say that when all of a product's features, including features like size, shape, texture, materials, combinations and placement of elements, etc., are chosen as a matter of *engineering* design in a functional product, then there simply is no nonfunctional aspect to the "overall appearance" of the product. With this concept we agree, as set forth in more detail below.

> type and appearance of the pivot joint on the pliers head.

At first blush it would appear easy to conclude that the jury's finding of trade dress infringement is supported by substantial evidence. Cooper acknowledges it copied the overall appearance of the PST almost exactly. There is no dispute that one must look fairly closely at the products to distinguish them. The fact that Cooper could have chosen to use an appearance which more visibly distinguishes its product from the PST is confirmed by the jury's finding that the second Toolzall did *not* infringe.

To uphold a finding of infringement here, however, would suggest that the general appearance of almost any unpatented product rarely if ever could be copied faithfully.[4] That is not the law. Rather, "[t]he physical details and design of a product may be protected under the trademark laws only if they are nonfunctional . . . ." *Clamp Manufacturing Co., Inc. v. Enco Manufacturing Co., Inc.*, 870 F.2d 512, 515 (9th Cir. 1989) (citing *Vuitton Et Fils S.A. v. J. Young Enterprises*, 644 F.2d 769, 772 (9th Cir. 1981)). The *Clamp* court went on to explain:

> The requirement of nonfunctionality is based "on the judicial theory that *there exists a fundamental right to compete through imitation of a competitor's product*, which right can only be temporarily denied by the patent or copyright laws." *In re Morton-Norwich Products, Inc.*, 671 F.2d 1332, 1336 (C.C.P.A. 1982) (emphasis in original). If the utilitarian aspects of the product are its essence, only patent law protects its configuration from use by competitors. *See Morton-Norwich*, 671 F.2d at 1338-40; *cf. Vuitton*, 644 F.2d at 776-77. "Functional features of a product are *features which constitute the actual benefit that the consumer wishes to purchase, as distinguished from an assurance that a particular entity made, sponsored, or endorsed a product*." *Vuitton*, 644 F.2d at 774. For an overall product configuration to be recognized as a trademark, the entire design must be nonfunctional. *Textron, Inc. v. U.S. Int'l Trade Comm'n*, 753 F.2d 1019, 1025 (Fed. Cir. 1985). "*[T]he right to copy better working designs would in due course, be stripped of all meaning if overall functional designs were accorded trademark protection because they included a few arbitrary and nonfunctional features.*" *Id.*

Id. at 516 (some internal citations omitted, italics in original, underscoring added).[5]

The *Textron* court further explained an important difference between "de facto" and "de jure" functionality:

> In essence, de facto functional means that the design of a product has a function, i.e., a bottle of any design holds fluid. De jure functionality, on the other hand, means that the product is in its particular shape *because it works better in this shape* . . . . [B]efore an overall product configuration can be

[4] Some cases use the term "slavishly copied." We use the term "faithfully copied" to mean the same thing, i.e., copying to the extent that few if any differences in appearance are readily noticeable, whether or not differences in quality or other differences are discernable on close inspection.

[5] The *Clamp* court ultimately upheld the trial court's finding of trade dress infringement, albeit with reluctance. *See* 870 F.2d at 516-17. Nothing in the opinion or in the district court opinion in that case, 5 U.S.P.Q.2d 1643, discloses exactly what the nonfunctional features of the product were.

> recognized as a trademark, the entire design must be arbitrary or non de jure functional.

Textron, Inc. v. U.S. Int'l Trade Comm'n, 753 F.2d at 1025 (citations omitted, emphasis added, emphasis in original omitted).

In *Duraco Products, Inc. v. Joy Plastic Enterprises, Ltd.*, 40 F.3d 1431 (3d Cir. 1994), the court identified additional issues with alleged trade dress lying solely in "product configuration."

> Of course, it is not the purpose of unfair competition law, under the guise of either consumer protection or the protection of business good will, to implement a policy of encouraging innovative designs by protecting them once designed. Those issues are the province of copyright and patent laws. Moreover, design protection laws (which have repeatedly been introduced in Congress during virtually every session since 1917) have not once been enacted. *See Esquire, Inc. v. Ringer*, 591 F.2d 796, 800 n. 12 (D.C. Cir. 1978) (observing that since 1914 none of the approximately 70 design protection bills introduced in Congress had passed); Brown, *Design Protection: An Overview*, 34 UCLA L.REV. at 1395 ("Beginning in 1957, a [design protection] bill has been introduced in probably every Congress. . . ."); Dratler, *Trademark Protection for Industrial Designs*, 1988 U.ILL.L.REV. at 888 & n. 4, 904 & n. 94 (stating that the history of the effort to have Congress enact industrial design legislation takes up 160 pages in a Copyright Office bibliography, and that between 1914 and 1945 at least 45 such bills were introduced in Congress).

> . . . . We believe that courts should exercise restraint so as not to undermine Congress's repeated determinations not to afford virtually perpetual protection to product configurations with an expansive construction of section 43(a). What Congress has, for the great span of this century, been unwilling to do, . . . should not be effected by the judiciary.

40 F.3d at 1446-47 (some internal citations and footnote omitted).

Several other courts have noted that it is, and should be, more difficult to claim product configuration trade dress than other forms of trade dress. *See, e.g., Landscape Forms, Inc. v. Columbia Cascade Co.*, 113 F.3d 373, 379 (2d Cir. 1997). ("[T]his circuit appears to be moving toward a rule that packaging is usually indicative of a product's source, while the design or configuration of the product is usually not so."); *Versa Products Company, Inc. v. Bifold Co. (Manufacturing) Ltd.*, 50 F.3d 189, 207-08 (3d Cir. 1995) (holding that deliberate intent to copy does *not* support finding a likelihood of confusion in product configuration cases unless a "product's labeling and marketing are also affirmatively misleading").[6]

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[6] We note that the circuits are split as to whether product configuration cases are different conceptually from ordinary trademark or trade dress cases. *See Ashley Furniture Industries, Inc. v. Sangiacomo N.A. Ltd.*, 187 F.3d 363, 370-73 (4th Cir. 1999) (criticizing *Duraco*). The focus of the split, however, is what it takes for a trade dress to be "inherently distinctive" and whether the traditional categories of generic, descriptive, suggestive, arbitrary, and fanciful can be applied meaningfully in product configuration cases. *See id.* Because this case does not present those issues squarely, we do not decide them. We hold only that in a product configuration case there must be some aspect to the configuration which is nonfunctional, a premise with which even the *Ashley Furniture* court would appear to agree. *See id.* at 375-76 (arguing that the

With these standards in mind, it becomes apparent that there is no evidence in the record which supports the jury's conclusion that the overall appearance of the PST is protectable trade dress. To be sure, the PST has an appearance, as every physical object must. There is no evidence, however, that anything about that appearance (other than the Leatherman name) exists for any non-functional purpose. Rather, every physical part of the Leatherman is de jure functional. No witness pointed to any feature of, or marking on, the PST (other than the Leatherman name) which was ornamental or intended to identify its source. Rather, the evidence showed, as in *Textron*, that "the product is in its particular shape *because it works better in this shape*." 753 F.2d at 1025 (emphasis added). Indeed, the designer of the PST repeatedly testified as to his belief in the truth of Leatherman's claims as to the superiority of the PST design.

Leatherman is correct that trade dress must be viewed as a whole, but where the whole is nothing other than the assemblage of functional parts, and where even the arrangement and combination of the parts is designed to result in superior performance, it is semantic trickery to say that there is still some sort of separate "overall appearance" which is nonfunctional. If it is permissible to draw a distinction between such an object and its "general appearance," then virtually nothing is utilitarian, and virtually the only product designs which could be copied faithfully are those which are widely used and therefore in the public domain. Such a result would

requirement of nonfunctionality is sufficient to protect the right to compete). As a practical matter, though, it may often be difficult to show that the configuration of a useful product is not functional. As the issue would be less likely to arise with product packaging, and could not arise with respect to a trademark, it is fair to say that it may be more difficult to establish protectable rights in product configuration cases, even assuming the legal concepts and standards otherwise are no different.

be wholly inconsistent with the principles and authorities discussed above.

Nor can the fact that there are many other multifunction tools with a variety of appearances (including the second Toolzall) preclude Cooper from faithful copying of the PST. While it is appropriate to look to possible alternatives when judging whether a design is functional, the evidence here was unequivocal that none of the alternatives offered the same functionality as the PST. Even though many of the tools likely are highly functional and useful, none of them offer *exactly* the same features as the PST. For example, a particular alternative design might be substantially larger than the PST. As such, it might actually be *preferred* by a customer seeking a heavier-duty tool to keep in the car. A customer looking for a tool to carry in a pocket every day, though, might prefer the compactness of the PST.[7] Leatherman does not have the right to preclude competition in any particular subset of the overall market.

Leatherman relies on an unreported district court case, and three cases cited by that case, for the proposition that in analyzing whether there are viable alternative designs, courts should look to "broadly defined product lines." The published cases are *Brandir Int'l, Inc. v. Cascade Pacific Lumber Co.*, 834 F.2d 1142 (2nd Cir. 1987); *In re DC Comics, Inc.*,

[7] Indeed, Leatherman itself apparently sells a multifunction tool which is even smaller than the PST and which presumably has resulting advantages and disadvantages. That tool necessarily has a different appearance and it may demonstrate that alternative designs may be able to find a viable economic niche. Nevertheless, Leatherman does not have rights under trade dress law to compel its competitors to resort to alternative designs which have a different set of advantages and disadvantages. Such is the realm of patent law. For this reason, trial testimony from Cooper's engineers and others that a tool with a different appearance could be just as useful as the PST does not support the verdict.

689 F.2d 1042 (C.C.P.A. 1982); and *Warner Bros., Inc. v. Gay Toys, Inc.*, 724 F.2d 327 (2nd Cir. 1983).

In *Warner Brothers*, the court rightly rejected an argument that labels on a toy car which allowed children to *identify* it as a "Dukes of Hazzard" car were "functional." *See* 724 F.2d at 330-32. *DC Comics* involved a party's attempt to register drawings of certain comic characters as trademarks for dolls of the same characters. In concluding that registration would not allow a monopoly on dolls in general, the court understood that the appearances of the comic book characters in issue were fanciful and not utilitarian in any respect. *See* 689 F.2d at 1045. In *Brandir*, the court stated it would be appropriate to *examine* a broad product line, but nothing therein suggested that after examination one could not conclude that widely different products did not fulfill the same functions, or fulfill them as well. *See* 834 F.2d at 1148. To the extent anything in *Brandir* suggests that a product feature is nonfunctional if there is *any* alternate design that competes to *any* degree, it is inconsistent with the purpose and extent of the functionality doctrine described above.

Accordingly, even viewing the evidence in the light most favorable to Leatherman, the only reasonable conclusion is that the overall appearance of the PST is not protectable as trade dress, at least as against a competitor which clearly marks its own product with a distinct name and who uses distinct packaging. Since there is no dispute that Cooper marked and packaged the Toolzall distinctively, judgment as a matter of law should have entered in its favor.[8]

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[8] In view of this conclusion, we do not reach Cooper's argument that the district court erred in granting partial summary judgment to Leatherman regarding Cooper's argument that the overall appearance of the PST had been disclosed in certain patent applications.

III.

The portion of the judgment that grants Leatherman a permanent injunction is REVERSED. No costs are allowed.

LEATHERMAN TOOL GROUP, INC., Plaintiff-Appellee,

v.

COOPER INDUSTRIES, INC., Defendant-Appellant

Nos. 98-35147, 98-35415

United States Court of Appeals for the Ninth Circuit

March 3, 2000

ORDER

Before: CANBY, JR. and T.G. NELSON, Circuit Judges, and FOGEL,[1] District Judge.

The panel has voted to deny Appellant's petition for rehearing. Judge T.G. Nelson has voted to deny the petition for rehearing en banc and Judge Canby and Judge Fogel so recommend.

The full court has been advised of the petition for rehearing en banc and no judge of the court has requested a vote on whether to rehear the matter en banc. Fed. R. App. P. 35.

The petition for rehearing and the petition for rehearing en banc are denied.

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[1] The Honorable Jeremy Fogel, United States District Judge for the Northern District of California, sitting by designation.

LEATHERMAN TOOL GROUP, INC., Plaintiff

v.

COOPER INDUSTRIES, INC., Defendant

CV No. 96-1346-MA

United States District Court for the District of Oregon

November 17, 1997

JUDGMENT

MARSH, Judge.

On October 17, 1997, a jury returned a verdict finding that plaintiff established trademark rights in the overall appearance of the Leatherman Pocket Survival Tool (LPST) and that defendant's original ToolZall infringed the LPST. The jury rejected plaintiff's claim that the re-designed ToolZall tool (modified to include plastic coated handles) infringed plaintiff's LPST trade dress. The jury found that plaintiff had sustained no damages relative to its trade dress infringement claim.[1] In addition, the jury found that plaintiff had established its common law claims for passing off, false advertising and unfair competition relative to a claim that defendant used an LPST as a mock-up for some of its early advertising for the ToolZall. The jury awarded $50,000 in actual damages and $4.5 million in punitive damages for the common law claims.

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[1] In December of 1996, shortly following the ToolZall's introduction, I entered a preliminary injunction against domestic sales of the ToolZall.

During a pretrial conference, I conferred with the parties and determined that the issue of any permanent equitable relief would be taken up post-trial. In post-trial briefing, plaintiff seeks a permanent injunction against sales of the original ToolZall in both the U.S. and over 70 foreign countries, the destruction of ToolZall component parts and an increase in actual damages relative to its common law claims and damages on foreign sales. Other than the domestic injunction, defendant opposes each request and argues that the jury's punitive damage award must be set aside as "grossly excessive" and/or in violation of Oregon's constitutional prohibition against punitive damages as applied to speech related activities.

As for the extra-territorial injunction, defendant argues that such a holding would violate its Seventh Amendment jury trial rights. However, I find that this issue was raised pretrial and it was with the understanding that both the entry and scope of a permanent injunction would be taken up post-trial. Based upon that understanding, I precluded plaintiff from proffering any evidence relative to foreign sales activities. I agree, however, that plaintiff's claim for damages from foreign sales exceeds the scope of that limited understanding and thus, my consideration will be limited to those equitable remedies specifically raised during the pretrial conference.

The parties have not cited, nor have I been able to find a case precisely on point relative to the entry of a permanent injunction against foreign sales following a successful jury verdict on a trade dress claim relative to domestic sales. Both parties agree, however, that the standards set forth in *Ocean Garden, Inc. v. Marktrade Co., Inc.*, 953 F.2d 500 (9th Cir. 1991) governs the issue of the appropriateness of an injunction against foreign sales activities. In *Ocean Garden*, plaintiff and defendant were U.S. corporations engaged in the marketing of canned seafood products distrib-

uted for export to the Far East. *Id.* at 501. The defendant distributed products solely in the Far East. On appeal, defendant argued that the district court lacked jurisdiction to control is activities in foreign countries and thus, erred in entering a preliminary injunction. The court upheld the preliminary injunction, finding that the Lanham Act was broad enough to encompass such conduct. In reaching this conclusion, the court relied upon the following three-part test:

> "(1) there must be some effect on American foreign commerce; (2) the effect must be sufficiently great to present a cognizable injury to plaintiffs under the federal statute; [and] (3) the interest of an links to American foreign commerce must be sufficiently strong in relation to those of other nations."

Id. at 503. The court held that the sales of infringing goods in foreign countries with a financial impact in the U.S. were sufficient to satisfy the first two "effects" elements of the test. *Id*; *see also Winterland Concessions Co. v. Fenton*, 835 F. Supp. 529, 531 (N.D. Cal. 1993). In analyzing the third factor which requires a comparison of U.S. versus foreign interests, the Ninth Circuit examined the following seven subfactors:

(1) the degree of conflict with foreign law;

(2) nationality of the parties;

(3) whether enforcement could be effective;

(4) the relative significance of the effects on the U.S. as compared against effects in the foreign countries;

(5) whether there is any evidence that defendant expressly intended to harm U.S. commerce;

(6) foreseeability of the U.S. effects; and

(7) the relative importance of the violations within the U.S.

Ocean Garden, 953 F.2d at 503-04.

The court held that where there were no pending legal proceedings in the foreign countries regarding the same subject matter, where both parties were U.S. corporations, where the defendant's activities were "orchestrated" from the U.S., where the infringement was intentional and where the goods were exported from the U.S. through a foreign trade zone, the district court's exercise of extraterritorial jurisdiction was justified. *Id.* The court then went on to examine the merits of the case and found, based in part upon evidence of confusion in the foreign countries affected by the injunction, that plaintiff had established a high likelihood of success on the merits. *Id.* at 506.

Defendant argues that plaintiff must establish that it has protectable trade dress rights in each country in which it seeks to extend the injunction. However, defendant provides no citations for such a proposition. I found no such legal requirement and what little I have found indicates that the burden is upon the defendant to show that it has a superior right in a foreign country to prevent the imposition of an injunction. In *Totalplan Corp. Of America v. Colborne*, 14 F. 3d 824, 831 (2d Cir. 1994), the court found that an extraterritorial injunction should lie "in countries were both parties were marketing their goods and the defendant had not established a superior right to use its mark." *See also Ocean Garden*, 953 F.2d at 503 (noting absent determination that defendant had superior rights, no conflict with foreign country existed), *citing American Rice, Inc. v. Arkansas Rice Growers Cooperative Ass'n*, 701 F.2d 408, 415-16 (5th Cir. 1983)

Plaintiff has come forward with evidence (in Roger Bjorklund's declaration) that Cooper's foreign sales have impacted plaintiff's revenues in the U.S. Plaintiff provides a listing of countries in which LPSTs have been exported (Ex. 194) and claims that Cooper has sold the original ToolZall in "many" of the same foreign countries. Plaintiff has failed to identify which foreign countries Cooper has entered with the original ToolZall, however, plaintiff confirms that it is the prior user in each territory identified.

Cooper is a U.S. company and it is undisputed that its original ToolZall products are made in the U.S. (Georgia) and exported to foreign countries through North Carolina. Thus, enforcement could be effective here in the U.S. There is also no evidence of any pending legal proceedings in any foreign countries such that the imposition of an injunction would interfere or conflict with another country's sovereign interests. Finally, there is unrefuted evidence that defendant intentionally copied the LPST (whether in good or bad faith), intending to carve out a portion of Leatherman's market share. Thus, I find that the exercise of extra-territorial jurisdiction is proper in this case.

However, in reviewing plaintiff's list of 71 foreign countries in which the LPST has established prior rights, many of the sales in these countries have been de minimis. For example, the sale of a single tool in Russia in 1994 cannot be said to have a significant effect upon plaintiff's U.S. revenues. Of those countries listed, only 22 involve sales of a significant enough amount to justify the imposition of an injunction. These countries are as follows:

> Australia, Austria, Canada, Denmark, Finland, France, Germany, Hong Kong, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Saudi Arabia, Singapore, Spain, Sweden, Switzerland, South Africa, South Korea, and the United Kingdom.

I find that plaintiff's request for a destruction of all ToolZall components is unwarranted given the jury's finding that the re-designed ToolZall does not infringe the LPST trade dress and given evidence that the same tool components used in the original ToolZall will also be used for the re-designed ToolZall.

Plaintiff's request for an increased damage award on its common law claims is also denied. Plaintiff bases this request upon an alternative jury instruction (#71.2) which would have advised the jury that it could, in the alternative, consider Cooper's advertising expenditures to determine a damage award for the common law claims. Defendant objected to this instruction and I declined to give this alternative damage instruction because neither of the two cases plaintiff cited, *Southland Sod Farms v. Stover Seed Co.*, 108 F.3d 1134 (9th Cir. 1997) and *U-Haul Int'l, Inc. v. Jartran, Inc.*, 793 F.2d 1034 (9th Cir. 1986), supported such an instruction.[2] Plaintiff has preserved this issue for appeal, and I reject any request for reconsideration.

As for defendant's claims that the punitive damage award is grossly excessive under *BMW of North America, Inc. v. Gore*, 116 S. Ct. 1589 (1996), I find that the award is fairly proportional given both the nature of the conduct, evidence of intentional use of the modified LPST and the size of an award necessary to deter future similar conduct given defendant's size and assets. I also find that the jury was properly focussed upon defendant's actions, not its "speech" in reaching the award such that the constitutional concerns set forth in *Smallwood v. Fisk*, 146 Or. App. 695 (1997) are not implicated.

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[2] *Southland Sod* held that an award could encompass defendant's profits from the false advertising and plaintiff's costs of correction. *U-Haul* simply held that the fact that a defendant spent large sums on advertising could justify a presumption of public deception.

Based upon the foregoing and the jury's verdict, IT IS HEREBY ORDERED AND ADJUDGED:

1. That Leatherman Tool Group, Inc. ("Leatherman") has trademark rights in the overall appearance of the LPST;

2. That Cooper Industries, Inc.'s (Cooper) original ToolZall tool infringes Leatherman's trademark rights;

3. That Leatherman shall be awarded no damages for Cooper's infringement;

4. That Cooper, its officers, agents, servants, employees and attorneys and those in active concert or participation with Cooper who receive actual notice of this injunction, are hereby permanently enjoined from selling or offering to sell the original ToolZall within the United States and within the following foreign countries: Australia, Austria, Canada, Denmark Finland, France, Germany, Hong Kong, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Saudi Arabia, Singapore, Spain, Sweden, Switzerland, South Africa, South Korea, and the United Kingdom;

5. That Cooper's new ToolZall does not infringe Leatherman's trademark rights;

6. That Cooper has passed off and falsely advertised the original ToolZall tool in violation of both the Lanham Act and the common law of the State of Oregon,

7. That Cooper shall pay to Leatherman $50,000 as damages for its acts of passing off and false advertising;

8. That Cooper's actions of false advertising and passing off were carried out with malice or showed a reckless and outrageous indifference to a highly unreasonable risk of harm and a conscious indifference to Leatherman's rights;

9. That Cooper shall pay $4.5 million in punitive damages; 40% to Leatherman and 60% to the Criminal Injuries Compensation Account of the Stat of Oregon;

10. That Cooper, its officers, agents, servants, employees and attorneys and those in active concert or participation with Cooper who receive actual notice of this injunction are hereby permanently enjoined from using the photographs of a multipurpose tool which appear on Cooper's original packaging for the original ToolZall toll and Cooper's initial advertising for the original ToolZall tool, or any photograph of a Leatherman Tool or components thereof, unless the photographs are clearly and prominently marked to identify Leatherman Tool Group, Inc. As the source of the pictured products;

11. That Cooper infringed Leatherman's copyright in a line drawing;

12. That Leatherman shall recover no damage for Cooper's copyright infringement;

13. That Cooper, its officers, agents, servants, employees and attorneys and those in active concert or participation with Cooper who receive actual notice of this injunction, are hereby enjoined from any further use of Leatherman's line drawing; and

14. That all remaining claims and counterclaims (save attorneys fees and costs to be addressed post-judgment) are dismissed with prejudice.

DATED this 14 day of November, 1997.

/s/

Malcolm F. Marsh
Federal District Court Judge

LEATHERMAN TOOL GROUP, INC., Plaintiff

v.

COOPER INDUSTRIES, INC., Defendant

CV No. 96-1346-MA

United States District Court for the District of Oregon

January 7, 1998

ORDER

MARSH, Judge.

On October 17, 1997, a jury returned a verdict finding that plaintiff had established trade dress rights in the overall appearance of its Pocket Survival Tool and that defendant willfully infringed those rights with its original Toolzall tool. The jury rejected plaintiff's claim that the defendant's "new" Toolzall with plastic covered handles violated plaintiff's trade dress rights. In addition, the jury found in plaintiff's favor on its claims of passing off, false advertising and unfair competition based upon evidence that defendant used one of plaintiff's tools in its early Toolzall promotional advertising. The jury awarded no damages on plaintiff's trade dress claim, awarded $50,000 actual and $4.5 million in punitives for plaintiff's common law claims. Defendant now moves for judgment as a matter of law (JMOL), a new trial and, alteratively, for a reduction in the punitive damage award under O.R.S. 18.537(3).

Defendant's motion for JMOL re-raises arguments I have previously rejected with entry of the preliminary injunction, denial of defendant's motion for summary judgment on functionality, numerous oral pretrial and trial rul-

ings, and resolution of issues within the judgment. Defendant has well-preserved these issues for appeal, but absent new authority or facts, I stand by my prior rulings.

Defendant's motion for a new trial is based upon several factors. First, defendant claims that plaintiff's counsel's admitted trial errors, when accumulated, were so prejudicial as to render the trial unfair. I carefully considered these issues at trial and found that the jury conscientiously considered and followed my curative instructions negating any prejudicial impact. Second, defendant claims that I made two last minute changes to the jury instructions which effectively "sandbagged" its trial strategy. The first relates to my changing the phrase "entire design" and "overall configuration" which appeared throughout the jury instructions to "entire overall appearance." The parties' submitted agreed and disputed jury instructions used each of these terms, often interchangeably. (See Proposed Agreed Instructions #14, 16, 17, 18 and 29). In fact, defendant submitted instructions to which the plaintiff objected which used the term "overall appearance" rather than "entire design." (See Proposed Defense Instructions #24.4 and 25-1). My intent was simply to make the instructions be consistent with one another. My selection of the phrase "overall appearance" was simply made to be consistent with the bulk of the trial testimony. I disagree that this change in any way prejudiced the defendant.

Defendant also claims prejudice from my addition to the functionality instruction of the phrase "need to compete" relative to the cost or quality of a product. While the final instruction did differ in this one respect from the preliminary instruction, defendant overstates the significance of the preliminary instruction. First, the preliminary instruction on functionality was given to point out the distinction between the common use of the word function or functionality and the

legal definition of the terms. As the words were used by both parties, it was important to make such a distinction. Furthermore, as part of the preliminary instructions, I specifically referred to the fact that the final instructions would govern deliberations. The final instructions were both read to the jury and two written sets are sent to the jury room for their consideration. Finally, I made the change at the plaintiff's request based upon the Second Circuit's holding in *Stormy Clime Ltd. v. Pro Group, Inc.*, 809 F.2d 971, 975 (1987), which I still consider to be a correct statement of the law. *See also, Villeroy & Boch Keramische Werke K.G. v. THC Systems, Inc.*, 999 F.2d 619, 620 (2d Cir. 1993).

Defendant's final basis for a new trial is its claim that the jury verdict was against the great weight of the evidence. Defendant specifically argues that the testimony of Timothy Leatherman and Roger Bjorklund was incredible and should not be considered. I find that there was ample evidence to support the jury's verdict and further find that the jury's careful distinction between the original and new Toolzall is evidence that they properly followed my instructions and correctly applied them to the facts.

Finally, defendant seeks a reduction in the punitive damage award under O.R.S. 18.537(3) which provides in pertinent part as follows:

> "In addition to any reduction that may be made under subsection (2) of this judgment requiring the payment of punitive damages entered against the defendant if the defendant establishes that the defendant has taken remedial measures that are reasonable under the circumstances to prevent reoccurrence of the conduct that gave rise to the claim for punitive damages."

Defendant has come forward with evidence that it has sent memos to each operating division, brand managers, its ad agency, and plant managers directing that they not use others' products as the basis for advertising their own products. Defendant has also come forward with affidavits that all remaining literature which used the Leatherman LPST mock-up are or have been collected and destroyed. Defendant also intends to have brand managers meet with in-house counsel to ensure compliance with the policies set forth in the circulated memoranda.

Plaintiff objects on grounds that post-judgment efforts not considered by the jury should not be a proper basis for reduction of a punitive award under the Oregon statute. Plaintiff also claims that the purpose of punitive damages in Oregon is to punish as well as deter future wrongful conduct of the defendant and others. Defendant denies that punitive damages are meant to punish, arguing that deterrence is the sole justification.

I note that defendant's position relative to the purposes for punitive damages in Oregon is at odds with the agreed proposed joint jury instruction #73: "The purpose of punitive damages is to punish the wrongdoer . . . " It is also at odds with the Oregon statute, O.R.S. 18.537(1) which indicates that an award is appropriate for malicious or reckless conduct.

While the statute fails to specify whether remedial action must take place prior to or following a jury award, I agree with the plaintiff that in this particular case, defendant's post-judgment remedial efforts come too late to justify a reduction. Despite the entry of an agreed preliminary injunction relative to defendant's advertising materials depicting the LPST mock-up, defendant failed to take steps to actually retrieve the materials from vendors and advertisers even

though it admitted that its conduct was wrong. Thus, arguably inadvertent violations of the injunction did in fact take place. It wasn't until the entry of the judgment that defendant was prompted to take the significant steps that it now has implemented to ensure that its actions are not repeated. To allow a reduction in this instance would defeat the purpose of deterrence and would unjustifiably award a defendant who the jury found deserved to be punished for its conduct. Thus, defendant's motion for a reduction in the punitive award is denied.

Based on the foregoing, defendant's motion for JMOL (#346), motion for new trial (#344) and motion to reduce the punitive damage award (#338) are DENIED.

IT IS SO ORDERED.

DATED this 7 day of January, 1998.

/s/

Malcolm F. Marsh
Federal District Court Judge

LEATHERMAN TOOL GROUP, INC., Plaintiff

v.

COOPER INDUSTRIES, INC., Defendant

CV No. 96-1346-MA

United States District Court for the District of Oregon

December 18, 1996

OPINION AND ORDER

MARSH, Judge.

Plaintiff filed this action alleging that defendant has infringed its trade dress and engaged in unfair competition by manufacturing and marketing a tool substantially similar to the Leatherman Pocket Survival Tool (LPST), known as the Crescent Brand Toolzall (CBT). Plaintiff also contends that defendant used a touched up photograph of an LPST for one of its original product promotional brochures. Plaintiff asserts four claims for relief: (1) trade dress infringement in violation of Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a); (2) unfair competition by use of the LPST in a Cooper ad also in violation of Section 43(a) of the Lanham Act; (3) False Advertising in violation of Section 43(a); and (4) common law unfair competition by advertising and selling an "imitation" tool substantially identical in appearance to the LPST.

Plaintiff seeks a preliminary injunction against the manufacture and sale of the CBT and any further use of the LPST in Cooper advertising. Defendant has conceded the latter motion relative to use of the LPST in any ads. An evidentiary hearing was held on December 12, 1996.

Defendant contends that plaintiff's LPST was unpatentable as "obvious" in 1980 and that its inherent functionality precludes trade dress protection under the Lanham Act. Defendant has filed a motion for summary judgment which has been stayed pending the preliminary injunction hearing. Plaintiff argues that while individual components of the LPST are "functional," the overall product configuration is arbitrary, non-functional and so unique such that the LPST is inherently distinctive and/or has acquired a secondary meaning.

The parties agree on the basic, relevant legal standards. The most difficult question presented is one of the application of these legal standards to the facts in this case in assessing whether the overall product configuration of the LPST is "functional" as that term is understood under the Lanham Act. The critical difference between the parties' theories relates to the functionality issue: defendant contends that any alternative designs must perform the exact same functions in precisely the same manner to constitute a viable alternative. If accepted, defendant's theory would conclude that the Leatherman design is the only design which performs all of these functions in precisely the same manner and thus, it is functional and unprotectable as trade dress. Plaintiff contends that functional alternatives include any multi-function tool that competes with Leatherman for sales.

As Professor McCarthy has appropriately noted in his treatise *McCarthy on Trademarks and Unfair Competition*, (3rd ed. 1996), "Each case of alleged functionality will present a unique set of facts not easily disposed of either by sweeping generalities or precise legal rules." 7-133.

The standard governing this motion is the usual sliding scale examination of the plaintiff's chances of success on

the merits weighed against the threat of irreparable harm. Plaintiff correctly notes that if it has a protectable trade dress and establishes a likelihood of confusion, irreparable harm is presumed. *Jensen v. Metrosound*, 4 F.3d 819, 827 (9th Cir. 1993).

Discussion

The Lanham Act makes "actionable the deceptive and misleading use of marks to protect persons engaged in commerce against unfair competition." 15 U.S.C. § 1127. Section 43(a) protects qualifying unregistered marks. Product configurations may come under the Lanham Act's protection as a "trade dress." *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763 (1992). "Trade dress" is defined as "the total image of a product including such features as size, shape, color or color combinations, texture, graphics or even particular sales techniques." *Kohler Co. v. Moen, Inc.*, 12 F.3d 632, 641 n. 11 (7th Cir. 1993).

Leatherman's claim for protection of its product configuration as a trademark or trade dress raises several issues. The configuration of the LPST is entitled to trade dress protection if plaintiff establishes that: (1) its trade dress is not de jure functional; (2) it is inherently distinctive or has secondary meaning; and (3) consumers are likely to be confused. *Two Pesos*, 505 U.S. at 760-70. The functionality issue is the most difficult and problematic in this case. Although somewhat disputable, plaintiff has come forward with evidence that its overall configuration is distinctive to consumers and retailers (i.e. they see the shape and think "Leatherman" or refer to knock-offs as a "Leatherman-style" tool) and that customers have been and are likely to be confused, particularly by mail order sales since Cooper's distinctive packaging will not be apparent.[1]

Defendant's unclean hands argument -- that plaintiff should not be entitled to protection because a couple of the components are not manufactured in the US despite the LPST's "made in the USA" label -- is without merit.

Plaintiff contends that its trade dress consists of the overall product configuration which includes: (1) the tool size; (2) shape of the handles; (3) shape of the gripping jaws; (4) selection, shape and placement of the gripping jaw features; (5) mirror image tool handles; (6) brushed stainless steel finish on the handles; (7) the selection, arrangement and shape of the various tool blades both individually and collectively; (8) the combination and arrangement of features; (9) the proportional sizes of the components; (10) the type and appearance of the pivot joint including the placement and arrangement of an identifying mark and "USA."

(1) Functionality

Functionality is a question of fact. *Vision Sports, Inc. v. Melville Corp.*, 888 F.2d 609, 614 (9th Cir. 1989). A product feature is functional is "it is essential to the product's use or if it affects the cost or quality of the article." *Id.* Both

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[1] Defendant's argument against confusion is premised primarily upon its distinctive packaging. However, the Lanham Act protects post-sale as well as point of sale confusion. *Intsy-bit, Inc. v. Poly-Tech Industries*, 95 F.3d 663, 671 (8th Cir. 1996). Thus, plaintiff's evidence that customers return broken or defective knock-offs is proof of both association and post-sale confusion. Further, courts have held that "very little proof of actual confusion is required to prove a likelihood of confusion." Forum Corp. Of North America v. Forum, Ltd, 903 F.2d 434, 443 (7th Cir. 1990) (cites omitted).

patties agree that there are four factors relevant to functionality: (a) an expired utility patent disclosing utilitarian advantages of the design sought to be protected by the trade dress; (b) the extent of advertising which touts the utilitarian advantages of the design (e.g. the "Reach" toothbrush); (c) the availability of a "reasonable" number of design alternatives; and (d) whether the particular design results form a comparatively simple or cheap method of manufacture. *Clamp Mfg. Co. v. Enco Mfg. Co.*, 870 F.2d 512, 515 (9th Cir.), *cert. denied*, 493 U.S. 872 (1989).

The fact that a product is actually functional does nct preclude a finding of non-functionality of the trade dress for purposes of the Lanham Act. *See* McCarthy on Trademarks, 7-133 (uniquely shaped spray bottle constitutes protectable trade dress). In *Clamp Mfg*, the Ninth Circuit upheld a trial court's finding that a cantilevered "C" clamp design was non-functional. 870 F.2d at 516. The court noted that the case was "close," but held that while the clamp's design was clearly not arbitrary, sufficient evidence of alternative designs and competition in the field supported the trial court's findings. *Id.*

Similarly, the Eighth Circuit reversed a trial court's award of summary judgment to a defendant in a trade dress case involving quick change drill chucks. *Intsy-Bit, Inc. v. Poly-Tech Industries, Inc.*, 95 F.3d 663 (8th Cir. 1996). Although the case primarily addressed the issue of consumer confusion, the court also held that genuine issues of material fact precluded summary judgment on the issues of functionality and inherent distinctiveness. *Id.* at 672. As in this case, Intsy-Bit also relied upon an overall product configuration theory, contending that its trade dress consisted of a combination of color, shape and dimensions of its quick change chuck, drill guide and countersink. *Id.* at 667, n.6.

(a) There is no expired utility patent. There is a 1980 patent application for a tool that is similar to, but not identical, to the current LPST. This application discloses utilitarian advantages to the unique combination of tools and convenience of the compact design.

(b) The extent of advertising touting the utilitarian advantages of the design. Again, plaintiff draws the same distinction between utilitarian functions and the utility of the overall product design and defendant disputes the distinction. During the hearing, plaintiff's marketing director, Roger Bjorkland testified that Leatherman's use of phrases such as the "best combination of performance and functions" and "highest quality" constituted the same type of puffery used by others in the industry.

(c) The availability of alternative designs. McCarthy indicates that this is the most important factor of the four.

Plaintiff contends that there is a difference between the utilitarian advantages of compactness and multi-functioning and the overall "look" of the product based upon its configuration. Plaintiffs relies upon expert knife designers who opine that the unique product features plaintiff relies upon for trade dress protection are arbitrary and non-functional. *See* Declaration of Peter Kershaw and Alfred Mar. At the hearing, Kershaw testified that certain alternative design features found in competitive multi-tools present advantages over the Leatherman design. For example, Kershaw notes the advantage of placing the tool components on the insides of the handles so that the handle grips could be smoother and more comfortable in the hand. Kershaw examined and compared several competing multi-purpose tools, including the Gerber, SOG and Buck Knife. Kershaw opined that there was no magic to the 12-tool feature and felt that a

manufacturer need not offer the exact same features to compete with the Leatherman PST. Kershaw's testimony supported plaintiff's contention that Leatherman's enforcement of its trade dress rights has not precluded the introduction of alternative products and/or product improvements, variations and alternatives for the consumer market.

Plaintiff also proffers an expert declaration from David Allen, formerly a member of the U.S. Patent Appeals Tribunal who opines that the overall product configuration constitutes a unique trade dress.

During the hearing, Ben Rivera, Leatherman's Product Design Engineer testified that all new Leatherman products are designed to maintain the "Leatherman look." Rivera further testified that he felt it would be "easy" to re-design a 12 component multi-tool using the same 12 components found in the Leatherman PST which would be just as useful, but which would not look like a Leatherman. Examining the CBT, Rivera explained that the plier abutment was precisely the same as that which appears on earlier versions of the LPST but which has since been eliminated because it was actually a hindrance. Rivera opined that such a design feature could only be the product of deliberate copying since the abutment served no useful purpose; however, he also confirmed that the abutment was not an important element in the product's overall configuration.

Defendant argues that there is no distinction -- it is the overall uniqueness of the product design which plaintiff unsuccessfully sought to patent which is functional and non-arbitrary. Defendant proffers the declaration of Keith Jayma, the product engineer for the CBT who opines that the overall product configuration of the LPST is the product of a deliberate selection to enhance functional utility. Jayma contends that all of the LPST's features affect both its cost and quality.

Plaintiff proffers several examples of other multi-function tools made by Vitrinox, Gerber, etc. which do not look exactly like the LPST. Defendant claims that these are not fair comparators because any difference in tool selection, size or shape means that the tool will not perform exactly the same function. For example, if the pliers are longer and less tapered, they will no longer fit into certain smaller positions.

Defendant has not cited, nor have I been able to find, any case in which a court has required EXACT interchange ability of features. Such a concept does not make sense, however, given the underlying rationale of the Lanham Act which is to promote competition while protecting innovation. *See* McCarthy on Trademarks, 7-139; *Stormy Clime, Ltd. v. Pro Group, Inc.*, 809 F.2d 971 (2d Cir. 1987) (ultimate focus is upon impact to competition).[2] Thus, the critical inquiry focuses not upon the exact identity of individual functions but whether the alternatives proffered are true alternatives -- i.e. if a consumer purchased the Kutmaster Multimaster would the consumer also purchase an LPST or vice-versa?

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[2] Defendant's reliance upon language in *Dogloo, Inc. v. Doskoch, Mfg. Co., Inc.*, 893 F. Supp. 911 (C.D. Cal. 1993) is misplaced given critical factual distinctions. While Judge Collins refers to "alternative means of performing the same function equally well" he did so in the context of a single-function item -- a dog house. To be viable alternatives, plaintiff had to come forward with alternative dog house designs -- bird cage designs would not do. I do not read this opinion to stand for the proposition that an alternative must perform all of the same functions, especially in the context of a multi-purpose tool where the attractiveness of the particular features chosen will vary greatly by customer need.

Plaintiff has come forward with seventeen alternative multi-tool designs which include many of the same tool components and perform enough similar functions such that they should be considered true alternatives. Whether there are all viable, quality alternatives to satisfy this factor is a debatable question. It appears, however, that the competition in the multi-function tool market is vigorous and that requiring Cooper to make a few modifications to its Toolzall so it doesn't look quite so much like the Leatherman should pose no harm to the market and little burden on Cooper's manufacturing process.

(d) Whether the particular design results from a comparatively simple or cheap method of manufacture: plaintiff's expert contend that the LPST design is neither simple nor cheap and offers no cost-saving advantages over comparable products. Defendant's experts disagree and claim that alternatives either do not perform the same functions or do not perform them as well. Jayma, Cooper's product designer, explained that while the Scotch-brite finish might not be the most cost-effective finish available in the market, it is what Cooper's manufacturing process is geared for; alternatives would require that Cooper hire out increasing expense.

Again, I am unaware of any requirement that alternatives perform precisely the same functions. Given the nature of the product as issue, such a requirement makes little sense. Plaintiff has come forward with persuasive evidence that its particular design involves neither an inexpensive nor simple form of manufacture.

Having considered all of the facts and arguments presented with a particular emphasis upon the number of alternative designs, I find that plaintiff has demonstrated a likeli-

hood of success on the merits on the issue of functionality. Given that defendant's evidence and arguments against a finding of functionality presented in opposition to plaintiff's motion for a preliminary injunction are the same as those presented with its motion for summary judgment, the motion for summary judgment is denied.

(2) Inherently Distinctive or Secondary Meaning

Whether a particular trade dress has acquired a secondary meaning is also a question of fact. *Vision Sports*, 888 F.2d at 614. Trade dress acquires a secondary meaning "when the purchasing public associates the dress with a particular source." *Id.* at 614-15. Such secondary meaning may be established by proof that actual purchasers associate the trade dress with a particular source, that the plaintiff's use of the dress has been exclusive, the length of plaintiff's use and the degree and manner of plaintiff's advertising. *Id*; *Clamp Mfg.*, 870 F.2d at 517. Expert surveys are the "most persuasive" evidence of secondary meaning but are not a prerequisite. *Vision Sports*, 888 F.2d at 615. Proof of copying is also considered "strong evidence" of secondary meaning. *Id.*

Plaintiff has come forward with some evidence that the public associates the overall product configuration of the LPST with Leatherman. Advertisements for knock-offs refer to the tool as a "Leatherman-style." Surveys proffered during the hearing have not been considered probative given the absence of sufficient foundational support. Plaintiff has, however, come forward with its reply exhibits with significant evidence that defendant deliberately copied the Leatherman tool and used actual Leatherman tool parts in producing its own Toolzall prototype. Jayma testified that he sent photographs of the Leatherman tool to obtain price quotes from packaging vendors.

Defendant denies deliberate copying. Defendant's designer Jayma further testified that the tools include several differences including the lock-in mechanism for the components, the fastener style, the blade edge for the knife component, the finish on several components, and the sizes of the Philips head and file.

Plaintiff has marketed the LPST commercially since 1983 and has sold over 7 million tools. Plaintiff has asserted its exclusive right to the LPST product configuration in 19 filed actions and numerous out-of-court, pre-filing settlement agreements. Thus, although plaintiff's sue of its particular configuration has not been entirely exclusive, it has maintained a policy of pursuing actions against those manufacturers who produce the most similar form of tools. Plaintiff has come forward with evidence of extensive advertising and catalog promotions, all of which feature the LPST prominently. Plaintiff's corporate logo is the LPST in an extended, flat position.

Based on the foregoing, I find that plaintiff has demonstrated a high likelihood of success in establishing secondary meaning.

(3) Likelihood of Confusion

Factors relevant to this element include: (a) strength of the trade dress; (b) similarity between plaintiff's and defendant's trade dress; (c) evidence of actual confusion; (d) marketing channels used; (e) type of goods and likely degree of purchase care; and (f) defendant's intent in selecting its trade dress. *Vision Sports*, 888 F.2d at 616. "Very little proof of confusion is required to prove a likelihood of confusion." *Nelson/Weather-Rite, Inc. v. Leatherman Tool Group, Inc.*, 1995 U.S. Dist. LEXIS 16575, *38 (N.D. Ill. 1995).

Plaintiff has come forward with evidence that customers and those in the industry associate a folding pliers, multi-tool with the tools rotating outwards form mirror-image handles, with Leatherman. The overall product configuration of the LPST is *highly* similar to that of the Toolzall: they are the same size, color, shape, dimension and proportionality. Visible differences include: (1) the name stamped on the handle (of the current version); (2) bolts of the LPST are flat surfaced, the Cooper's are grooved; (3) the Leatherman has better heft and adjusts more smoothly; (4) carrying pouches are a slightly different shape; (5) lettering on the pouches is red, but different type style and the LPST includes a white logo; (6) packaging is a different size, shape and color. Despite these differences, one must still pick them up and closely examine the marking to tell them apart. As noted previously, confusion may be established by both point of sale and post-sale confusion so that the distinctiveness of the packaging is NOT determinative. *Intsy-Bit*, 95 F.3d at 671.

As for evidence of actual confusion relative to Cooper's tool, plaintiff relies upon an industry rep (David Bregger) who attended the Chicago trade show in August. Bregger thought Leatherman was producing the tool for Cooper under a private label agreement and indicated that this was the rumor circulating throughout the conference. Because Cooper's tool has just recently been introduced, plaintiff has no evidence of actual consumer confusion between the LPST and CBT.

Both parties use the same marketing channels, and both products are the same type of goods likely to compete head-to-head. The likely degree of purchaser care will vary since the tools are marketed to experts (including police officers) as well as novices and the spouses of novice builders,

campers, etc. With its reply exhibits, plaintiff has come forward with evidence that defendant's intent in selecting its trade dress was based upon a goal of deliberately cutting into plaintiff's market share. Exhibit 46 is a Cooper memo indicating Cooper estimated that it would "take @ 5% of the Leatherman market." The product development team even referred the Toolzall as the "Cooperman" tool.

Conclusion

Although this is by no means a clear question, I find that plaintiff has shown a likelihood of success on the merits of its trade dress infringement claim and that irreparable harm should be presumed in addition to finding a threat of actual irreparable harm. Accordingly, plaintiff's motion for a preliminary injunction (#13) is GRANTED; defendant's motion for summary judgment on the issue of functionality (#26) is DENIED. In the absence of an specific evidence of financial harm posed to defendant, plaintiff is directed to post a bond in the amount of $100,000.

Defendant has also filed a letter request to compel Timothy Leatherman to more fully define plaintiff's asserted trade dress. I DENY this request as plaintiff has adequately identified the elements of its overall product configuration for which it claims trade dress protection. Plaintiff's specificity is comparable to the trade dress identification specificity seen in other factually comparable cases such as *Clamp Mfg.* and *Itsty-Bit*.

Plaintiff has also filed a motion to dismiss defendant's first counterclaim which seeks a declaration that plaintiff's failed patent attempt now means that the tool design is in the public domain. Plaintiff argues that because it is not seeking patent protection in this case, dismissal is appropriate because there is no live controversy involving pat-

ent protection. Since defendant has stated a claim and may be able to establish that the design is now simply part of the public domain (like a hammer design) and thus, unprotectable plaintiff's motion to dismiss (#55) is DENIED.

IT IS SO ORDERED.

DATED this 18 day of December, 1996.

/s/

Malcolm F. Marsh
Federal District Court Judge

LEATHERMAN TOOL GROUP, INC., Plaintiff

v.

COOPER INDUSTRIES, INC., Defendant

CV No. 96-1346-MA

United States District Court for the District of Oregon

December 20, 1996

ORDER

MARSH, Judge.

Defendant's motion for clarification (#77, filed Dec. 19, 1996) of my opinion and order of December 18, 1996, is GRANTED in part and DENIED in part as follows:

(1) the preliminary injunction against Cooper Tools' manufacture of the Toolzall is STRICKEN; Cooper is not enjoined from manufacture of the Toolzall, only sales or offers for sale of the product;

(2) this injunction applies only to domestic sales or offers for sale of the Cooper Toolzall;

(3) Cooper's comment that my order "requires" that Cooper modify the Toolzall is in error. The context of the statement quoted by Cooper is from the section of the opinion addressing the availability of alternative designs. The reference was solely intended to indicate the lack of hardship posed should a final order result in a finding of infringement against Cooper. Accordingly, Cooper's request that I specifically identify which individual elements of

plaintiff's tool design are arbitrary and non-functional is denied.

IT IS SO ORDERED.

DATED this 19 day of December, 1996.

/s/

Malcolm F. Marsh
Federal District Court Judge